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June 22, 2005

## NEWS

### Let's build on successes of Freddie, Fannie and the Home Loan Banks By Sen. Jon Corzine (D-N.J.)

For millions of American families, buying a home is an important step toward achieving the American dream. And for decades, our nation's housing government-sponsored enterprises (GSEs) — Fannie Mae, Freddie Mac and the Federal Home Loan Banks — have helped families across the country draw closer to that dream.

By making home mortgages more affordable and encouraging loans to underserved populations, the GSEs have opened for millions of working families doors to home ownership that would have otherwise been closed.

Despite that record of success, however, the need for reform is clear. We have all been troubled by the accounting scandals, first at Freddie Mac and subsequently at Fannie Mae, and the accompanying questions raised about the GSEs' safety and soundness and existing regulatory structure.

Given these institutions' vital importance to our housing market and economy, it is crucial that we establish a world-class regulator — one that has the stature, capacity and resources to ensure that our GSEs will continue to meet their missions.

When it comes to reform, continued fulfillment of the GSEs' housing mission must be our highest priority. The housing market, after all, has long been a steadfast contributor to our nation's economic growth. For many families, particularly those of modest income, a home may be the only significant form of long-term savings.

As of last year, nearly 70 percent of Americans owned their own homes, including about 50 percent of minorities. As the market for homes has become more accessible and affordable, the result has been improved financial security and prospects for Americans who might not otherwise have



File Photo

Sen. Jon Corzine (D-N.J.)



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been able to build assets.

Our government-sponsored enterprises have played an integral role in this success. As the leading purchasers and securitizers of home mortgages, Fannie and Freddie help disperse risk throughout the market, allowing lenders to offer more services to a greater number of people. By holding loan portfolios of their own, the GSEs direct a greater flow of capital toward allowing Americans to own their own homes.

Make no mistake; neither of these mechanisms should go without regulation. The process by which Fannie and Freddie purchase and securitize mortgages must be transparent and fair. Their portfolios must not become a safety and soundness risk to the greater financial system or economy as a whole.

The new regulator, like any financial overseer, must be equipped with all the tools it needs to be effective, including risk-based and capital controls. But draconian measures, such as an arbitrary cap on portfolio size, as some have proposed, would unnecessarily undermine a valuable and important funding conduit, risking higher interest rates and reduced access to capital for homebuyers.

Beyond just lowering the cost of homeownership, Fannie and Freddie serve other critical functions in the marketplace. Notably, they have helped to institute higher lending standards in the mortgage industry, particularly with respect to underserved communities, through products such as automated underwriting. By virtue of maintaining higher standards, the GSEs have strongly encouraged primary lenders to do the same.

In addition, Fannie and Freddie must devote a sizable share of their business toward underserved areas, including poor and minority communities, and a sizable portion of the Federal Home Loan Banks' profits go toward their Affordable Housing Program. We will likely (and rightly) see an expansion of these goals as the reform process continues.

The combined result is lower interest rates for consumers, improved lending practices across the market and a never-before-seen accessibility of ownership for millions of hardworking Americans. While reform needs to happen, pragmatic reforms — not radical ones — are in order.

We ought to have more stringent oversight. We ought to put in place a new, world-class regulator. The bottom line: We ought to protect and improve this system; it has served the American people well for generations.

Sadly, this fight has too often been infected with political rancor. I hope that as we debate the reform options before us we do not become sidetracked by the demands of ideology or entrenched interests. The risks associated with some of the extreme policies that have been proposed are a diversion from what should be our goal: a secure and well-regulated system of GSEs that continues to help Americans achieve their ownership goals.

For decades, our nation's government-sponsored enterprises have helped millions achieve the American dream. Congress and the president ought to stand squarely in support of that mission. In the end, practical reforms can keep the GSEs vital. And to families opening the doors to their first homes — building assets and financial stability in the process — nothing could be more important.

*Corzine is a member of the Senate Banking, Housing and Urban Affairs Committee.*

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